



MINUTES

Board Members Present: Councilmember Tim Burgess ; Robert Harvey; David Stewart; Glen Lee; Lou Walter

Board Members Absent: Jean Becker; Sherry Crawford

SCERS Staff Present: Cecelia M. Carter; Mike Akiyama; Tony Smith; Ben Kalman; Beverly Yapp; Lisa Carns

Others Present: Mike Monaco, Song Mondress Law Firm; Carlton Seu, Seattle City Attorney's Office; John McCoy, Legislative Central Staff; Tom Kirn, Finance and Administration Services; George Emerson, Finance and Administration Services; Patti Kieval, Local 17; Nate Van Duzer, Legislative Office; Jessica Wang, City Budget Office; John Masterjohn, Retiree; Steve Viney, Retiree; Rick Thorsen.

Councilmember Burgess, Board Chair called the meeting to order at 9:01am

Approval of Agenda.

Motion: Upon motion by Lou Walter, seconded by Bob Harvey, the Retirement Board approved the agenda for the August 9, 2012 meeting.

Glen Lee and Carlton Seu arrived at 9:03am.

Public Comment: No public comment.

Administrative Consent Agenda

Minutes:

Provided in the Retirement Board packet was the minutes from the July 12, 2012 Retirement Board regular meeting.

Mr. Harvey requested a change to the July Minutes in the section "2013-2014 Biennial Budget (Draft) Presentation". It was requested the inclusion of the word "proposed" to the sentence discussing a new pension system.

Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals

Service	\$9,935,381.81
Beneficiary	\$895,537.74
Disability	\$76,715.69
Pension Payroll – PPE July 31, 2012	\$10,907,634.94
 Office Payroll – PPE July 3, 17 and 31, 2012	 \$88,732.55
 Vouchers Processed – July 31, 2012	 \$930,174.44
*Expert and Consultant Services – \$52,819.95	
*Investment Management Fees – \$798,927.09	
*Interdepartmental Charges - \$63,092.60	
*Miscellaneous - \$15,334.80	

Immediate Withdrawals of Contributions for the month of July 2012:

Member	Department Name	Position
Ball, Diane K	Police	Crossing Guard
Blanchard, Larry Roy	SDOT	Manager 3
Dews, Ian P	SPU	Office Aide
Duncombe, Kimberly M	SDOT	Accountant
Farley, Ashley D	Library	Public Svc Tech
Kuhns, James A	Parks	Groundskeeper I
Kuniholm, Timothy G	Parks	Manager 2

Member	Department Name	Position
Lewis, Jonathan Ray	SPU	Sr Safety & Health Spec
Martin, Glenn D	HSD	Counselor
Medina, Steve R	Legislative	Legist Asst
Nestor, Theresa Ann	Law	Admin Spec I
O'Connor, Clare F	Exec	Com Dec Spec
Payne, Amanda L	Muni Court	Personnel Spec Sr
Phan, Chau Quang	SPU	Civil Engr
Tan, Ming M	Library	AMH Syst Op
Wallace, Casandra S	DPD	Bldg Plans Examiner
Woodruff, Abduwal W	Seattle Center	Dining Room Attendant

Bold entries above indicate refund payout made to beneficiary of a member dying while in active status. **Withdrawals for a total of: \$599,953.33**

Ratification of Service Retirements for the month of July

Retiree	RetireDt	Years	Days	Age	DeptName	Position
Aldridge, Janet Rae	7/4/2012	31	184	56	City Light	Food Svc Supv
Applegate, Douglas C	7/3/2012	5	199	62	Vested	Vested
Banks, Pamela L	7/4/2012	29	333	52	Neighborhoods	Manager 2
Bursett, Katherine L	7/3/2012	11	130	50	Retirement	Retirement Specialist
Chase, Larry J	7/4/2012	21	28	70	HSD	Info Tech Prof C
Chavez, Geraldene A	7/3/2012	18	353	66	Police	Latent Print Examiner
Coby, Dwight A	6/26/2012	11	110	66	Vested	Vested
Flynn, Marlene S	7/3/2012	26	105	54	City Light	Manager 3
Foster, Jacqueline L	6/8/2012	23	44	60	Police	Police Comms Dispatch I
Glembotski, Gary B	7/4/2012	13	27	62	Parks	Electrician
Harrison, Daniel J	7/3/2012	37	156	64	City Light	Elect Constructor
Johnstone, Lindsey N	7/1/2012	10	1	59	Vested	Vested
Levine, Susan E	6/30/2012	25	2	57	HSD	Mgmt Sys Anlyst Sr
McClure, Susan	7/3/2012	29	111	64	City Light	Personnel Spec
McManigal, Nancy E	6/15/2012	24	64	59	Law	Victim Adocate Supv
Pete, David E	6/26/2012	34	122	56	City Light	Maint Wrk
Raught, Richard W	6/29/2012	25	215	65	City Light	Carpenter
Rice, Richard C	7/4/2012	13	292	72	City Light	Elect Engr Spec Asst III
Staeheli, Mary Ann	6/13/2012	31	198	63	Library	Library Tech I
Tsao, Karen L	7/1/2012	18	211	61	Vested	Vested
Usui, Eugene H	7/4/2012	44	75	63	Library	Library Shelving Oper
Vorhis, Linda M	7/4/2012	27	186	60	City Light	Electn-Con
Waggoner, Janet A	6/15/2012	5	150	66	Vested	Vested
Yoshida, Keith E	6/26/2012	25	28	55	Vested	Vested

For the month of July: 58 new Members entered the System, 32 terminations, 24 Members retired in the System, 21 Members removed (\$25,935.74), 1 Option C expirations, no Option D/E continuations, 1 Option F reduction, and 2 spousal death pop-ups (benefit popped up to the Straight from Option E).

Ms. Carter reported the following:

- Payroll now exceeds \$10.9 million per month.
- Included in the withdrawals for the month of July was Mr. Chau Quang Phan employee contributions withdrawal. The check was delivered to the Seattle City Attorney's Office.

Motion: Upon motion by David Stewart, seconded by Bob Harvey, the Retirement Board approved the below items contained in the Administrative Consent Agenda.

- Minutes of the July 12, 2012, Board Meeting as amended
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of July 2012

Investment Consent Agenda

Investment Committee Report

The Investment Committee met on July 26, 2012 at 9am at the Seattle City Employees' Retirement System Office, 720 Third Avenue, Suite 900 (Pacific Building). Committee members present: Glen Lee; David Stewart. Other Board members present: Jean Becker; Sherry Crawford. SCERS Staff Present: Cecelia Carter, Executive Director; Tony Smith; Ben Kalman; Mike Akiyama; Beverly Yapp; Lisa Carns. Others Present: Carlton Seu, Seattle City Attorney's Office; Neil Rue, Pension Consulting Alliance; David Sancewich, Pension Consulting Alliance; Mike Moy, Pension Consulting Alliance and Andrew Bratt, Pension Consulting Alliance; John McCoy, Legislative Central Staff; Jessica Wang, Budget Office; George Emerson, FAS.

Mr. Tony Smith and Mr. Ben Kalman with SCERS staff provided an overview of the July 26, 2012 Investment Committee meeting.

Investment Summary Accounting Report:

Provided in the Retirement Board packet was the Investment Summary report that represents the transaction summary and the market value of the investments as of June 2012. Mr. Tony Smith, SCERS staff reported the SCERS Total Portfolio had a market value of \$1.82 billion. As of the report date, the funded ratio for the plan was 61.71%. For the month of July the underweight to Non-U.S. was reduced with re-balancing from U.S. equities.

Emerging Markets Manager Search:

Mr. Kalman provided a recap of the Emerging Markets Manager presentations. The three finalists chosen (in alphabetical order):

- Dimensional Fund Advisors (DFA)
- J.P. Morgan Asset Management
- Quantitative Management Association (QMA)

Below is a recap of each presentation:

DFA: Has approximately \$245 billion in total assets under management, is 70% owned by current employees, with the remaining 30% held by outside investors. DFA's investment philosophy is grounded in academic research that shows small size and value style, as risk factors, can provide increased expected returns over long periods of time. DFA employs a structured, quantitative approach that is based on the efficient trade-off between risk and reward, and adds value through design, management, and trading.

J.P. Morgan Asset Management: Has approximately \$2.3 trillion in total assets under management, is a publicly traded firm and one of the largest financial services companies in the world. J.P. Morgan believes that the emerging markets asset class is inherently inefficient and that the best way to exploit these inefficiencies is by having in-depth, local knowledge.

QMA: Has approximately \$83 billion in total asset under management, and is an independently managed indirect subsidiary of Prudential Financial. QMA utilizes a bottom-up, quantitative approach to investing, applying principles of valuation theory and behavioral finance with disciplined judgment. When evaluating stocks, QMA's importance of various factors depends on whether companies are slow or fast growing and they carefully attempt to limit the risks associated with such attributes as market capitalization, growth/value style, sector, industry, country, and region.

Mr. Smith reported SCERS staff and PCA did a due diligence site visit at QMA. There were a few findings that came from the onsite visit. There was dialogue among the Board and SCERS staff concerning comingled funds versus separate accounts in the Emerging Markets space. Mr. Lee asked for clarification on the screening process. The Board agreed there was not enough information presented to approve the selection of QMA. The Board requested this item be referred back to the Investment Committee on August 30, 2012.

Workout Portfolio Update

SCERS staff reported during July 2012, SCERS received its final holdback from Widevine, Inc. in the amount of \$171,683.08. PCA recommended the board address several investments in the near term, particularly the Quellos-BlackRock Global Restructuring Fund, Ltd and the MKA Opportunities Fund. PCA and Staff continue to work in concert to determine SCERS' ability to monetize the remaining investments. The staff asked the Board for direction on how to proceed with the small accounts. The Board dialogued about having each workout item be presented to the Board for approval or to give staff authorization to liquidate under a certain dollar limit. The Board recommended staff have the authority to workout funds under \$500,000. The Board also agreed to liquidate Quellos-BlackRock Global Restructuring Fund Ltd and the MKA Opportunities Fund.

Motion: Upon motion of Tim Burgess, seconded by Bob Harvey, the Board authorized staff to terminate and monetize Quellos-BlackRock Global Restructuring Fund Ltd and MKA Opportunities Fund.

Motion: Upon motion of Bob Harvey, seconded by Glen Lee, the Board approved authorization to SCERS Staff to liquidate funds in the workout portfolio that are under \$500,000.

SCERS Investment Advisory Committee Member

SCERS staff reported the Investment Committee reviewed the three resumes received in response to the posting for an additional Investment Advisory Committee member. The Investment Committee recommended the selection of Mr. Dwight McRae of Metzler Asset Management to the Investment Advisory Committee.

Motion: Upon motion of Lou Walter, seconded by Glen Lee, the Retirement Board accepted the Investment Consent Agenda except for the selection of a manager from the active Emerging Markets Manager presentations.

Executive Director Report:

Ms. Carter reported there continues to be dialogue between SCERS lawyers and the lawyers for the managers chosen for the covered calls mandate. There will be further discussion and presentation of status at the Investment Committee meeting.

The Retiree Self Service was launched on August 2, 2012. The Retiree Self Service will allow retirees 24/7 access to change their address, direct deposit information, etc. Ms. Carter thanked Ms. Beverly Yapp for her work on launching Retiree Self Service and training staff on how it works.

National Save for Retirement Week

Ms. Carter, SCERS Executive Director reported National Save for Retirement is the week of October 21st. SCERS staff will host a National Save for Retirement event on Monday, October 22nd.

Votenet Solutions

Ms. Carter reported Votenet Solutions planted a tree on SCERS behalf as part of their 2012 Environmental Donation Program.

Council of Institutional Investors Fall Seminar

Ms. Carter reminded the Board the fall conference of CII is in Seattle, Washington on October 3-5, 2012. Ms. Carter requested the Board members interested in attending notify Lisa Carns as soon as possible.

State Portability Rules

Ms. Carter briefed the Board on the memorandum City Council, President Sally Clark and Government Performance and Finance Chair Tim Burgess sent the SCERS Board of Administration requesting SCERS review the City's Municipal Code related to Disability Retirement in conjunction with portability. As requested by the SCERS Board of Administration City Council passed Ordinance 123891, modifying the eligibility rules for disability retirement under the SCERS pension plan. The ordinance addressed non-job-related disability cases and it eliminated the long-standing rule that prevented employees from receiving such a disability retirement for a medical condition that pre-dated their City service. The ordinance left in place the rule that

employees must have 10 years of City service to be eligible for a SCERS disability pension. It has come to City Council's attention there may be some concerns relating to SCERS disability retirement provisions and the City's obligations under the State's retirement portability laws. The statutes states years of service in a prior covered pension system count for purposes of eligibility for disability retirement. City Council requested SCERS Board and staff, in conjunction with City staff and the Law Department, review this issue and recommend changes to the Seattle Municipal Code that will protect the Retirement Fund and the City from unintended costs. Ms. Carter reported a draft will be presented to the Board at the September Board meeting.

Status of Benefit Enhancements:

Information: The **estimated** current funding level of the Retirement Fund is 61.71% as of June 30, 2012 on a marked-to-market basis. The above amount is an estimate calculated each month by the Retirement Office staff. As provided by Ordinance 120685, changes to the Floor COLA will occur once the funding level has reached at least 100% and has been confirmed by the Board after commissioning an actuarial valuation.

New Business

Declaration of Credit Interest

Ms. Carter reported SCERS executive management recommends the Board of Administration consider a rate of 3.33% credit interest for the calendar year 2013 to be applied effective the first full pay period of 2013. This rate is more than the broad range average of the capital market returns for the 2011 calendar year. Ms. Carter gave an overview indicating the credit interest annual review is necessary due to the implementation of the policy enacted by the SCERS Board of Administration in October 2011.

Motion: Upon motion of Bob Harvey, seconded by Glen Lee, the Retirement Board set the 2013 credit interest on all employee contributions received into the pension trust after December 31, 2011 at 3.33%. There were 5 yes votes. Lou Walter voted no.

Forfeiture Policy

Ms. Patti Kieval with Local 17 requested to make public comment. The Board Chair approved her request. Ms. Kieval expressed concerns about the language in the policy being too broad. Ms. Kieval requested the Board revisit the policy as written. There was dialogue about the language in the Seattle Municipal Code being too broad and the reason for implementing a Forfeiture Policy was to narrow the language within the Code. Mr. Monaco stated the language in the policy is constructive and will serve the purpose of implementing the policy. Mr. Seu noted each case would be reviewed on a case by case situation. Mr. Stewart requested the word "official" be included in item number 1, first sentence between "his or her" and the work duties. Mr. Seu and Mr. Monaco advised the word "official" is not necessary and the policy written as is serves the purpose and intent of the Board.

Motion: Upon motion of Tim Burgess, seconded by Lou Walter, the Retirement Board approved the Forfeiture Policy dated August 9, 2012.

Dashboards – Reporting Period Ending 6/30/2012

Mr. Smith, SCERS staff gave an overview of the investments for the 2nd quarter 2012. The funding ratio is up 34 basis points. Staff is working towards lowering the holdings for BlackRock from 20.44% to 15% to be in line with investment policy. Mr. Akiyama reported on the membership, cash flow and performance for the quarter. Mr. Walter questioned the chart "SCERS Membership Changes by Year". The question was about the numbers not being accurately reported. Error was discovered and Ms. Carter indicated this page of the Dashboards will be revised and reported at the September Board meeting. The monthly pension benefits grew 0.6% for the 2nd quarter 2012. The estimates completed increased in the 2nd quarter from 67% to 86%. The estimates completed on time doubled from 29% to 58% in the 2nd quarter. The buybacks experienced a 119% increase in average processing time. Mr. Akiyama indicated the reason for the delay is due to retirement estimates taking at least 8 weeks to be processed.

Second Quarter 2012 Financials

Mr. Burgess requested this item be tabled in order to focus on the presentation of the draft 2013-2014 Budget. The Board approved request.

Presentation of Draft 2013-2014 Biennium Budget for SCERS

Mr. Akiyama, SCERS staff presented the Board with an overview of the 2013 budget proposal. There was dialogue about staffing, contractors, and attorney fees. Mr. Burgess requested an executive session for 15 minutes with no staff present.

The Board went into executive session at 10:50am. Mr. Seu announced at 11:05am a 10 minute extension.

The Board reconvened at 11:15am.

Motion passed:

Motion: Upon motion of Tim Burgess, seconded by Glen Lee, the Retirement Board approved a 2013 Budget of \$12, 949,000.00 which is comprised of the 2013 baseline budget of \$12,569,000.00 plus an additional \$120,000 for rent as outlined in the lease agreement and \$260,000 for outside consultant to assist with assessment of a pension system pending a detailed project plan.

Adjournment:

Motion: Upon of motion David Stewart, seconded by Bob Harvey the Retirement Board voted to adjourn the meeting at 11:18am.

David L. Stewart, Secretary